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March 13, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Hand Delivery

Re: Oral *Ex Parte* Presentation
Bell Canada Petition for Declaratory Ruling
IB Docket No. 98-148

Dear Ms. Salas:

On behalf of Bell Canada and pursuant to Section 1.1206(b)(2) of the Commission's Rules, this letter will notify the Commission that on March 10, 2000, David Kidd (Vice President-Regulatory Law for Bell Canada), Teresa Muir (Director of Regulatory Affairs for Bell Canada), Edward Price (counsel for Bell Canada) and I (counsel for Bell Canada) met with Anna Gomez, Jeffrey Anspacher and Justin Connor, all of the International Bureau, to discuss the above-referenced proceeding and to provide the Commission's staff with information about the regulatory environment and market in Canada.

The enclosed materials, copies of which were provided to the meeting participants, summarize the information that was discussed during the meetings.

In the event there are questions concerning this matter, please contact me.

Very truly yours,

Gregory C. Staple

Enclosures
cc (w/o encl.): Anna Gomez
Jeffrey Anspacher
Justin Connor

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BELL CANADA
PETITION TO BE REMOVED FROM LIST OF FOREIGN CARRIERS THAT ARE PRESUMED TO POSSESS MARKET POWER

IB Docket No. 98-148

March 9, 2000

Bell Canada Satisfies Legal Standard For Removal From The List of Foreign Carriers With Market Power

Legal Standard – § 43.51(g)(1)(ii)

To be removed from list, foreign carrier must show either:

- carrier "lacks 50 percent market share in the international transport and local access markets on the foreign end of the route" *or*
- "it nevertheless lacks sufficient market power on the foreign end . . . to affect competition adversely on the U.S. market"

Bell Canada Lacks Market Power: It Cannot Adversely Affect U.S. Competition Through Its Canadian Local Exchange Or Long Distance Business

Market power test under Section 43.51(g)(1)(ii) should focus on behavior which dominant carrier rules are designed to deter:

1. Whipsawing

   - Ability to whipsaw U.S. international carriers in negotiating foreign operating agreements

2. Anti-Competitive Cross Subsidies

   - Ability to raise costs of U.S. international carriers (e.g., through non-cost-based foreign termination charges) that foreign carriers can then use to subsidize U.S. affiliate or to maintain higher prices on home country route

3. Price Discrimination

   - Ability to use "bottleneck" facilities (e.g., local exchange) to discriminate against non-affiliated carriers in the market

Regulatory and Market Conditions In Canada Prevent Bell Canada From Whipsawing U.S. Carriers, Price Discrimination Or Maintaining Anti-Competitive Cross-Subsidies

1. No Whipsawing

- Bell Canada competes with multiple facilities-based long distance competitors who have negotiated operating agreements with U.S. carriers

- The largest U.S. carriers – AT&T, Sprint – self-correspond on their own facilities-based Canadian long distance networks *and* they have operating agreements with Bell Canada

- The U.S.-Canada settlement rates is amongst the lowest in the world ($.06/minute off peak)

- Significantly, neither AT&T nor any other U.S. carrier has alleged that it has been whipsawed by Bell Canada or that the terms of their Bell Canada operating agreements are anti-competitive

2. No Price Discrimination

- CRTC regulation requires Bell Canada (and other incumbent LECs) to offer all competing IXCs – whether U.S. affiliated or not – non-discriminatory, cost-based interconnection to local exchange facilities

- Bell Canada's long distance business, while not structurally separate, has interconnection on some terms as AT&T Canada and other competing, non-affiliated IXCs

- Neither AT&T nor any other party has alleged that U.S. affiliated IXCs have less favorable interconnection terms than wholly Canadian-owned IXCs

- Local exchange market is open to competition and facilities-based bypass is growing in Bell Canada local service areas

Regulatory and Market Conditions In Canada Prevent Bell Canada From Whipsawing U.S. Carriers, Price Discrimination Or Maintaining Anti-Competitive Cross-Subsidies

3. No Anti-Competitive Cross-Subsidies

Canadian access charge and contribution regimes are cost-based and do not give Bell Canada opportunity to raise rivals costs or to cross-subsidize Bell Canada IX services in U.S. or Canada

- Local access charges in Bell Canada service area are among the lowest in the world – approximately 50% less than the rates of U.S. RBOCs – and are tariffed, cost-based and unbundled

- CRTC rules require Bell Canada's contribution charges to be cost-based

- No evidence that Canadian access or contribution regime has deterred U.S. carrier competition on U.S.-Canada route. AT&T and other U.S. carriers advertise discounted U.S. telephone service to Canada at $.05/minute or less – as low as rates to U.S. points and typically lower than any other foreign point. Largest Canadian affiliate in U.S., Teleglobe, had but 3% of market in 1998.

FCC Should Not Permit AT&T Corp. To Block Further Market Liberalization In U.S. By Importing AT&T Canada Dispute Over CRTC Contribution Regime

- AT&T Canada dispute over contribution charges is a domestic Canadian issue – not an FCC competition policy issue – and is currently being reviewed by CRTC and Federal Cabinet
- Contribution regime to support universal service does not discriminate against U.S. affiliates in Canada; it applies to all IXCs
- No factual evidence presented by AT&T (or other U.S. carriers) to show that contribution charges have been used by Bell Canada to reduce competition in U.S. IX market or on U.S.-Canada route

FCC Will Retain Adequate Tools To Police U.S.-Canada Operating Agreements Even If Bell Canada Is Classified As Non-Dominant

A. Delisting Bell Canada Does Not Preclude FCC Oversight Of U.S. Carrier Agreements With Bell Canada; Unjust Discrimination Or Preferences Would Still Be Prohibited

- FCC retains power to review relevant agreements under Section 211(b) of Communications Act. Carriers must submit agreements on request

- Section 201(a) of Communications Act bars unjust or unreasonable practices in connection with the provision of communication services on U.S.-Canada route

- Review of terms and conditions of U.S. carrier tariffs for service to Canada also provide indirect check on operating agreements with Bell Canada

B. Statutory Complaint Process Would Still Be Available to Any Party Which Has Evidence That Bell Canada Or A U.S. Affiliate Has Violated Communications Act Or FCC Rules

BCE Acquisition Of Teleglobe Will Not Impact Bell Canada's Market Power

- Until 1999, Teleglobe did not provide service on the Canada-U.S. route and hence did not negotiate international operating agreements with U.S. carriers. Hence, it could not whipsaw them

- Teleglobe does not control any bottleneck facilities on Canada-U.S. route or otherwise – (e.g., Teleglobe's CANUS-1 cable has 5 Gbps; AT&T Canada owns at least 60 Gbps of capacity on the AmeriCan-1 cable through its Metro Net subsidiary)

- Teleglobe only began to serve Canada-U.S. route in 1999 and reportedly has less than 5% of retail market. Teleglobe US had approximately 3% of total U.S.-billed international traffic based on latest (1998) FCC statistics

- Teleglobe is not a Canadian local exchange carrier

Canadian Regulatory Regime

Competitive Landscape

- Long Distance
  - Highly competitive
  - LD prices have declined 50% since 1993
  - Competitors have captured 30% of consumer and 47% of business markets
- Local
  - Regime in place
  - Resale gradually moving to facilities based entry, entrant costs increasing in short term due to consolidation e.g., AT&T acquisition of Metronet
  - VOIP

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Regulatory Landscape

- Access Charges
  - Low
  - Non-discriminatory
- Market Environment
  - Competitive regime in place
  - LD intensely competitive

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Access Charges

- Access rates amongst lowest in the world
- Potential for further reductions
- Contribution has declined dramatically
- Contribution is a small percentage of new entrants' revenues
- Contribution payments managed by independent third party administrator
- Process is auditable

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Access Charges

Tariffed rate comprised of		¢ per minute end
– Switching & Aggregation		1.2
– Average Contribution Rate		.5*
TOTAL	($ Cdn)	1.7
	($ US)	1.3

* Peak .75

Off Peak .32

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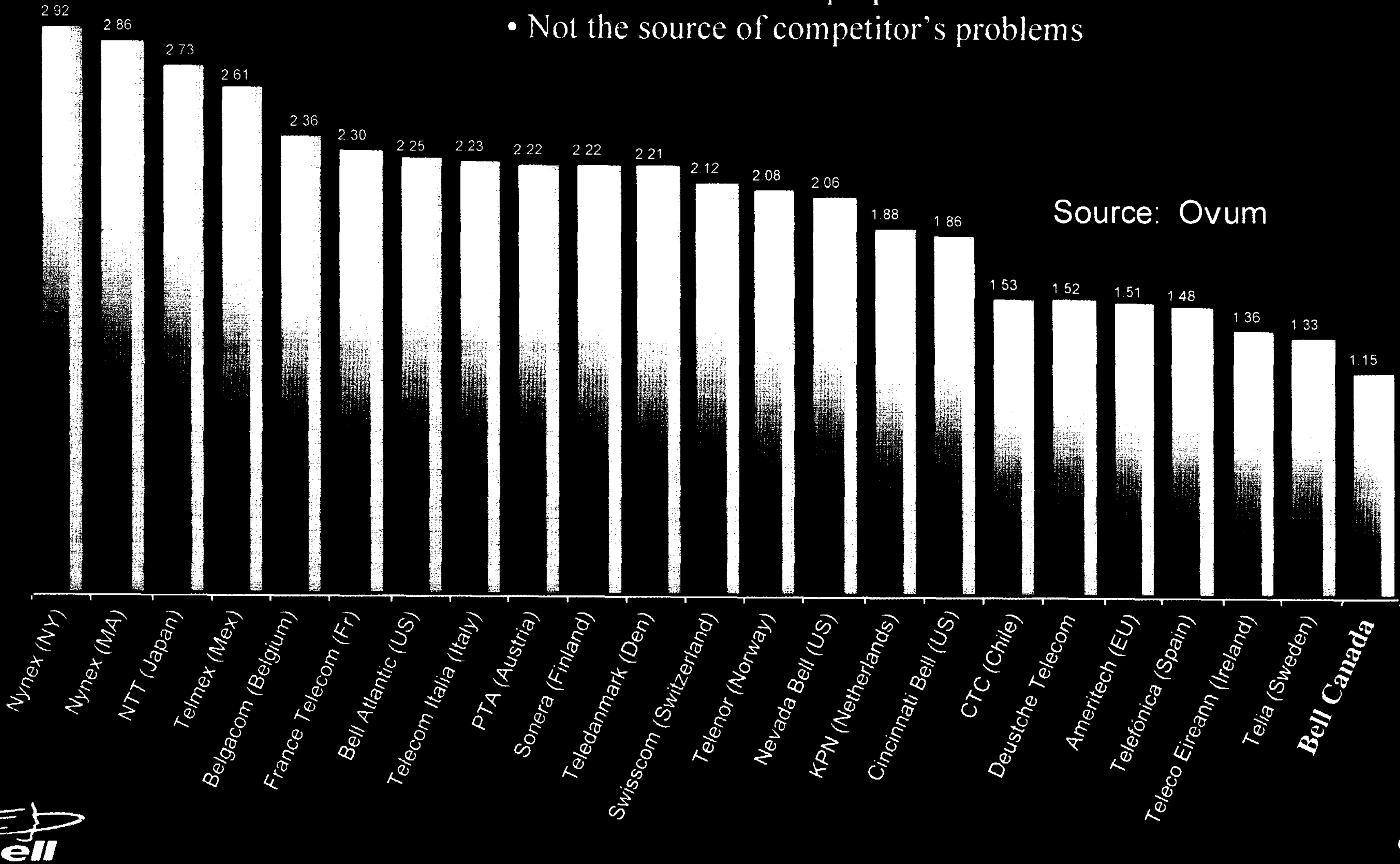
Access Charges

(U.S. cents per minute end)

- Canadian access charges already lowest in the world
- Canadian telcos have proposed further reductions
- Not the source of competitor's problems



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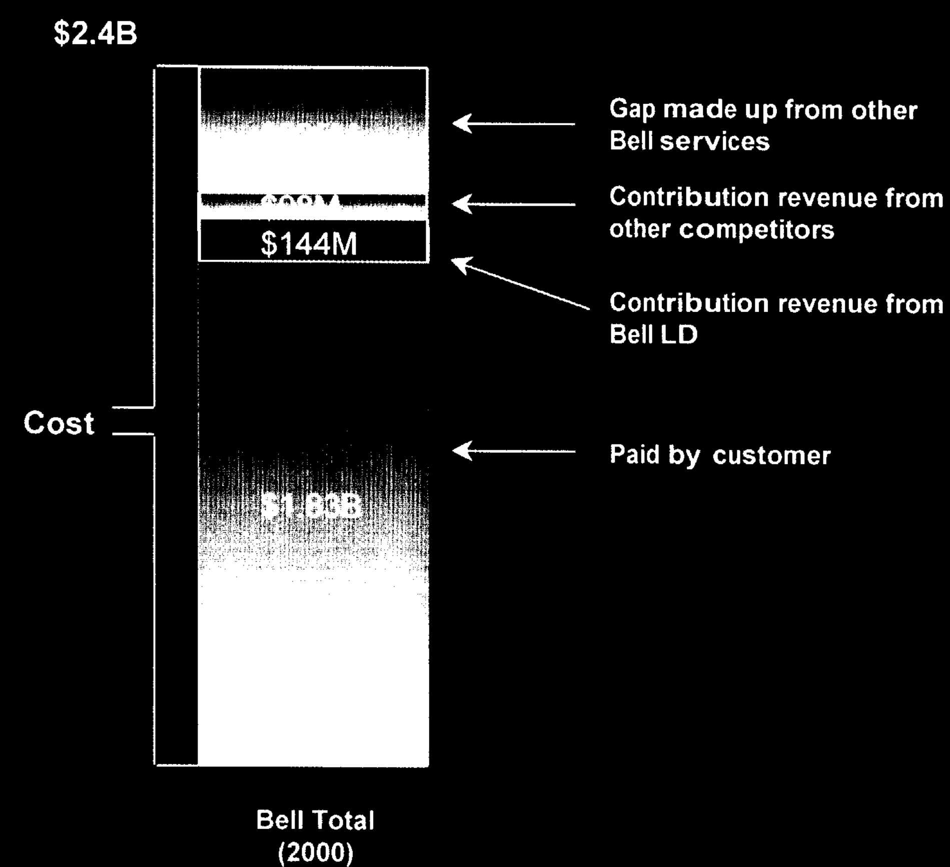
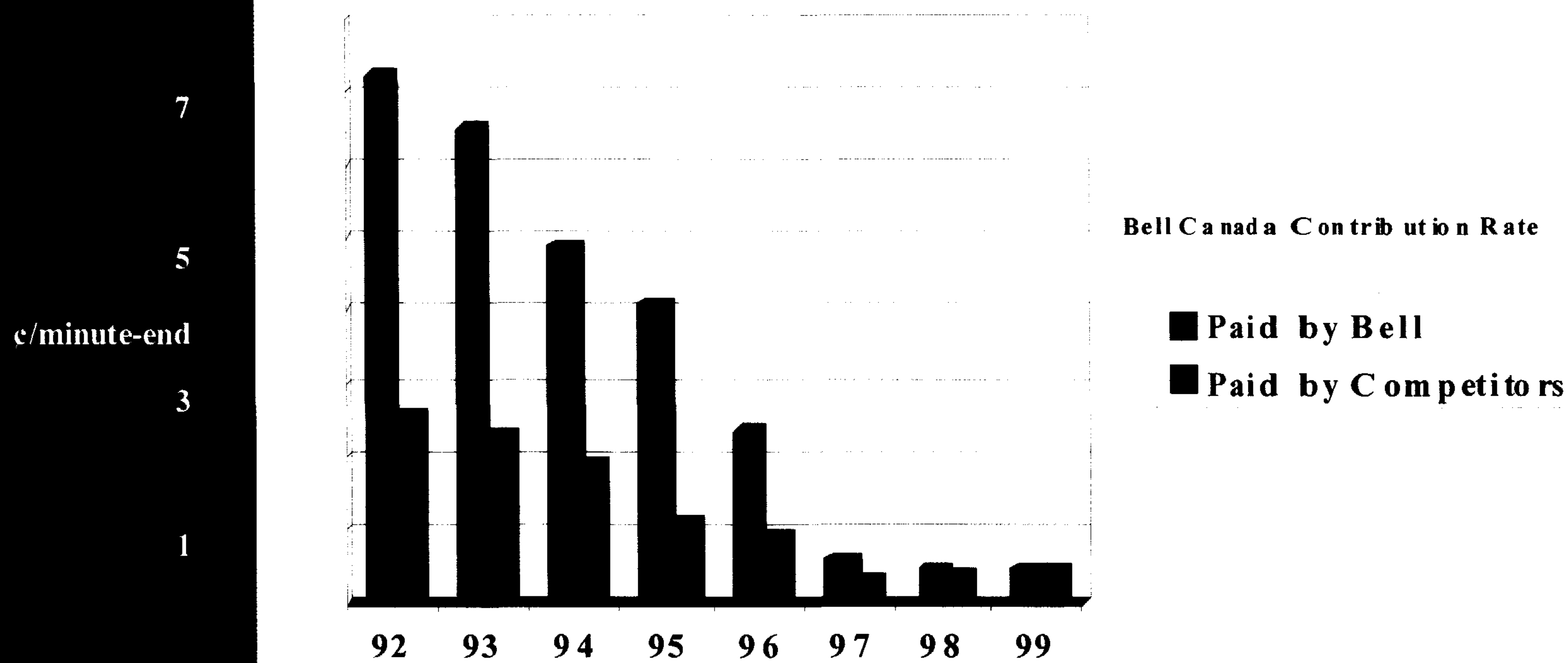
Residential Local Service Cost/Revenue Gap (2000)



Decline in Bell Contribution Rate



Contribution Revenues ($M)

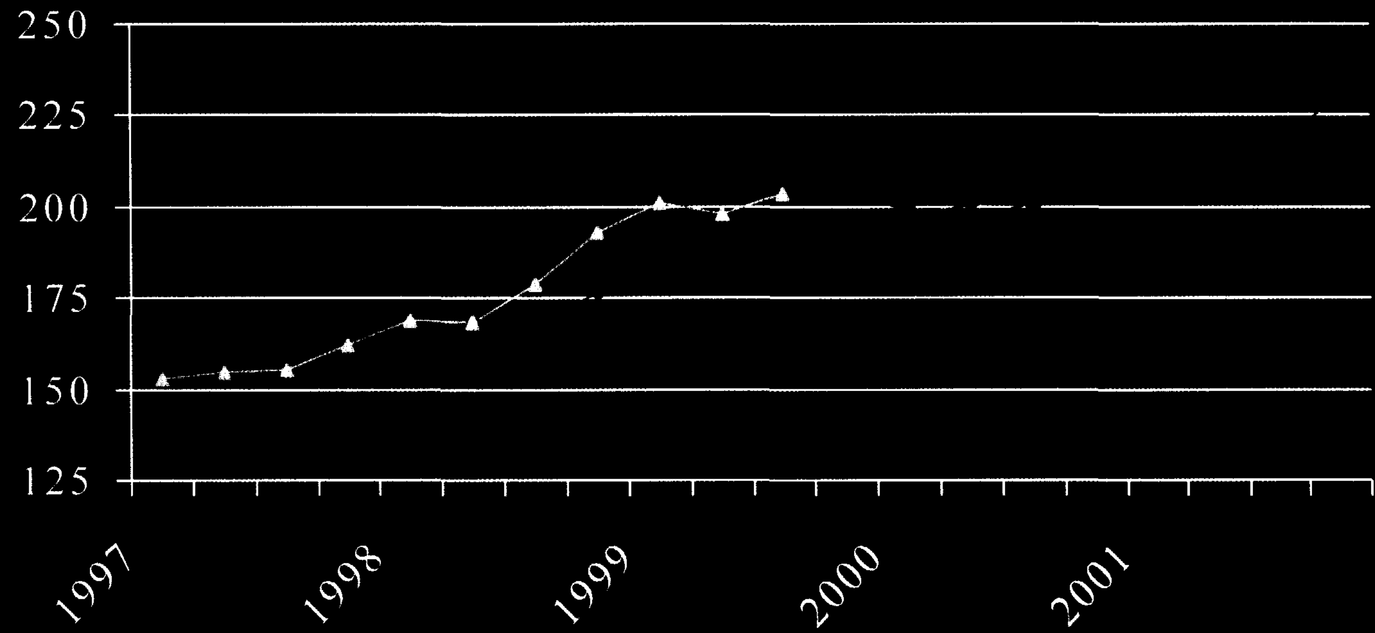
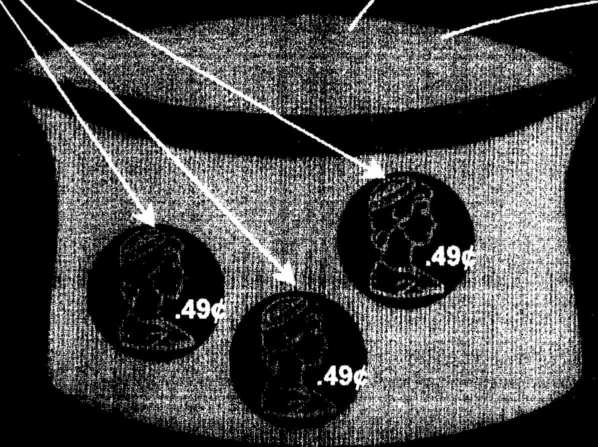


Illustration of Decision 99-20 conclusions

- 98-2 forecast assumes 9% growth per year (Decision 99-20)
- 99-20 forecast reflects actuals for 1998 and Q1 - Q3 1999: reflects growth thereafter of 6%
- 99-20 forecast also reflects reductions in international contribution beginning in 2000
- Over 1999 - 2001, the 99-20 forecast totals are only 1% higher than the 98-2 forecast
- Excludes effects of competitors' contribution discounts in 1997 and 1998

Contribution Pool

A contribution charge is assessed to each end of a Long Distance call (0.49 cents in Bell territory)



The revenues collected are distributed to LECs in higher cost areas to keep local service prices down

Recovery of subsidy is based on an objective, auditable standards: number of residential network access lines in various geographic bands

Bell